

# **Kentucky Agricultural Finance Corporation**

## **Meeting Minutes**

**November 14, 2003**

**The Kentucky Agricultural Finance Corporation met at 9:30am on November 14, 2003 in the South Wing of the Kentucky Fair and Exposition Center in Louisville, Kentucky.**

### **Members Present:**

Ms. Jane Jones; Ms. Sandy Ross; Dr. Harold Benson; Ms. Annette Crawford Walters; Mr. Wayne Hunt; Mr. Bob D. Proffitt; Commissioner Billy Ray Smith; Mr. Billy Joe Miles; Mr. Billy Hurd; Mr. Doug Lawson; Mr. Gordon Duke; Mr. Charles Miller

### **Governor's Office of Agricultural Policy Staff Present:**

David Bratcher; Gene Royalty; Bill McCloskey; Edith Fultz

### **Guests:**

Debbie Spencer

Commissioner Billy Ray Smith – called the meeting to order, announced that the press was notified of this meeting and asked the secretary to call the roll.

Commissioner Smith – welcomed everyone to the meeting and announced the Agricultural Summit. He explained that this year they are holding the Summit in conjunction with the Council on State Governments. The Kentucky Department of Agriculture, the Tennessee Economic Development Council and the Indiana Rural Development Council are the sponsors.

Commissioner Smith – entertained a motion for approval of the Minutes of the October 10, 2003 meeting. Mr. Bob Proffitt made a motion to approve; Dr. Harold Benson seconded the motion. The minutes were approved.

David Bratcher – referenced the executed agreement that is now in place, which was mailed to the group. He explained that Annette Walters will call the IRS this morning to get our tax-exempt number. We will pass this on to Farmers Bank, and then we are ready to move the \$20 million. He also told us that after our last meeting Doug Lawson stopped off and met with Deborah Stamper at Kentucky Bankers Association. Without our knowledge, Ms. Stamper sent e-mail to the top 20 agricultural lenders in the state to announce our program. We have had a lot of interest, in particular, in the Young Farmer Program. He explained we thought we would have our first Young Farmer loan application this morning, but the applicant's bank made a different proposal where they

would do 100% of the financing. They are waiting to hear back from him as to whether he accepts it. If so, we won't be entertaining his application. If he rejects it we may be looking at his application in December. Mr. Bratcher told us he has spoken to a banker in Carlisle and the father of a young farmer who wants to do a similar project. Our first project may come from a more tobacco dependent area.

He told us the general sentiment of the banks have been upbeat. They are intrigued by the Young Farmer Program. He explained that we have had an occasional discussion about the old link deposit program. He referenced last session when we talked about putting the Link Deposit Program under the umbrella of the Agricultural Finance Program. This is something we may wish to talk about in the next session.

Doug Lawson concurred and told us there was a good response from the banks. They were glad to help us out.

Mr. Bratcher told the group that we will follow up with those individuals who called with interest. There will have to be a certain amount of selling of this program. He explained that since Bill McCloskey and himself are currently the staff, part of the reservations to date have been that if we get inundated with applications we want to make sure that we aren't so swamped that we don't have the opportunity to adequately provide the service to the customers.

He told us that we had a lengthy meeting with Butch Dunsmore and Mitch Whittle at FSA yesterday. Mr. Bratcher explained that we have entered into a MOU with them for the guarantee program. He told us they pointed out a couple of things in our guidelines that we will change. In the Beginning Farmer program there is a 95 percent guarantee, not a 90 percent. We will make that change. He pointed out that we want to focus some attention on servicing the loans, in terms of the follow-up with the borrowers. He explained further and told us that our primary contact in Lexington is Mitch Whittle.

The other point is that most of these loans will be approved at the local FSA offices. There are currently 26 offices in the state where there are underwriters. He told us they are consolidating their offices so there will be 18 statewide. Our loans will be delivered to those offices and the underwriting will be done locally as opposed to Lexington. He asked Sandy Ross about the turn-around time for approval. Ms. Ross responded that this is usually two to three weeks. Mr. Bratcher told us that FSA encouraged us to do the underwriting of the loan application with FSA first so we have their letter of conditions when we go to the banks. He commented that on this first application, this is the procedure we will follow. He referred to the board members for their input. Ms. Ross and Doug Lawson concurred.

Mr. Bratcher pointed out that he sent out the Grant Agreement and the exhibits attached, including the last version of the guidelines and the guidelines for the County Revolving Loan Fund. He commented further that we are ready to start marketing the program.

## **New Business:**

### **Application Presentation**

Bill McCloskey presented application - Green River Cattle Company, Kentucky Branded Beef Product. They are requesting 50% participation on \$125,000 revolving line of credit (copy of application was provided).

Mr. Bratcher pointed out that when we funded this project the first time around, these men who are all fairly successful businessmen in Green County, wanted to take a slow type of procedure to see if this would work. Their goal is to develop a home grown Kentucky Branded product, where a farmer would feed the animals to slaughter weight on the farm, the slaughter would occur in Kentucky and the product would be distributed initially to buyers in the Kentucky area. He offered examples of market areas. He commented further and told us it appears that Community Trust Bank will be the participating bank. He explained that through the Agricultural Investment Fund we are participating in Community Trust's loan. We will be sharing with them pro-rata on all assets and the personal guarantees of each of these individuals. If there is a default we will also be sharing pro-rata on any proceeds of liquidation or cost of liquidation of the assets. There was group discussion. Mr. Bratcher explained that this group is very committed to the project and expressed that if they weren't such a strong group we wouldn't be as enthusiastic. Mr. Hunt questioned the possibility of success with this project. Mr. Bratcher explained that last year they bought 20 animals, shipped 10 off to a feed yard in Kansas, kept 10 in Kentucky and tried to do a comparison of return on investment. Because they had such a small number in the sample and they lost a couple of animals, that kind of skewed their numbers in a bad way.

Mr. Bratcher told us that one concern is that Mr. Jerry Boone, the owner of the slaughter facility in Bardstown doesn't have a person on staff that is adequately sophisticated on what retailers need. Mr. Bratcher stated that there might need to be some education within the slaughter facilities on what retailers want.

Charles Miller stated that these are quality people and expressed that he has been impressed by the quality progress they have made.

Wayne Hunt commented about this being a slow process and how this might be something that has a major impact.

Charles Miller commented further telling us that these 9 individuals, aside from being producers have a real interest in trying to help the farmers in that area add value to what they are doing.

Annette Crawford Walters commented that it was more cost effective to send the cattle out west. Mr. Bratcher responded explaining that the death rate and the way they bought the cattle on the front end skewed the numbers. He stated that they are at the point where they can say we see some merit in the model and we can fine-tune it a little

more. He reiterated that one of their concerns is whether we can find adequate slaughter facilities for the animals here to meet the needs of the retailers that we hope to sell to. He explained further that this was not a controlled experiment. He also noted that the ADB has funded them in small increments.

Ms. Walters addressed the cash flow analysis and questioned where they got the figure ½% to 1% death loss. Mr. Miller explained that in health requirements (CPH) the 1% is in line with that and on small numbers ½ % would be attainable.

Billy Hurd questioned where they are slaughtering these. Mr. Bratcher explained they are being slaughtered at Jerry Boone's facility in Bardstown.

Mr. Hurd asked if they are projecting 720 head in the first 24 months. Mr. McCloskey responded, yes. Mr. Hurd referenced the economic impact and pointed out they are showing really aggressive growth in years 1,2 and 3 and questioned if they are equipped to handle that level of growth. Mr. McCloskey responded that they have hired a production manager to help bring producers on line.

Mr. Bratcher referenced a conversation with Ed Rogers last week explaining that he acknowledged that to go to those levels a larger credit line would be needed. Cash is going to be the key. The quality of the receivables and how fast they can move the inventory will also have some impact. He commented that the big customer probably will be Houchens, but they are selling to some restaurants. Mr. Bratcher added that they have had some conversations with Sysco, but he believes that they aren't going to seriously talk to Sysco unless they could come up with some sort of a niche brand that is very unique. He referenced the group in Mayfield processing catfish, which has a huge contract with Kroger, and their struggle to make the numbers work. He feels that these men don't want to get that big that quick and find themselves unable to deliver to their customers. Commissioner Smith asked if Houchens is willing to contract. Mr. Bratcher explained that they are in the discussion stage with Houchens. Commissioner Smith offered positive comments. Mr. Bratcher mentioned a rumor of Houchens possibly being acquired by SuperValue.

Charles Miller commented about the death loss issue. One thing to be considered is that these cattle aren't going to ever be stressed. He also commented that 1% is reasonable. Mr. Hunt concurred.

Billy Joe Miles voiced concern of how many feedlots in Kentucky have succeeded and questioned how this one would be different. He referenced the weather patterns in the state. Ms. Walters stated that these cattle are going to be raised on multiple farms in the area, not a feedlot. Mr. Bratcher commented that a closer analogy would be mini-feed-lots.

Mr. Miles asked how they are going to be competitive and stated that the slaughter house is what he would worry about in the numbers. Mr. Bratcher responded that they

are realizing that at some point they are going to cross a line where it will no longer be cost effective to use a small slaughterhouse.

Mr. Miles commented that they would definitely need a partner to market. They need to have someone agree to buy the product at a premium. Mr. Bratcher responded that they do have a letter from Houchens. There was group discussion and comments.

Commissioner Smith commented that people will give more for local products.

Mr. Miles commented that they have to be better than their competitors.

Ms. Walters stated that she doesn't see salaries on the cash flow analysis. Mr. Lawson pointed it out. There was group discussion.

Mr. Bratcher explained that Lee Meyer and Benjy Mikel are assisting this group with other grant applications and commented that if they get the value added grant it would probably pay off the credit line immediately so our participation may be fairly short. He commented further on all the points that have been made this morning and the questions that everyone has, if we are going to roll the dice with someone, this is a pretty good group to do this with. He added that we have a pretty strong sentiment that we can be repaid. There were further comments.

Mr. Bratcher asked, aside from our agreement with the bank to share with them on a pro-rata basis on the collateral and the liquidation, are their other things that we would want to make sure are included as a condition of our participation with the bank? Mr. Hurd stated that we must make sure they have insurance on their assets. Sandy Ross questioned the interest rate. There was group response stating minimum of 4% or 2% below the banks'. Mr. Lawson stated that this is an issue the bank should settle. Mr. Bratcher asked Mr. Lawson if there would be merit in us escrowing the funds at the bank in an interest bearing account, letting them go in and out of that and report to us, as opposed to us wiring the money weekly. Mr. Lawson responded with explanation that with participation of the bank, accounting would take care of this. There was further discussion and explanation.

Mr. Bratcher questioned what the normal servicing fee is. Board members responded .25% - .50%. There was group discussion.

Mr. Bratcher told the group that this is our first attempt and commented that we need to standardize the format of the applications so they will be easier for the board to review.

Mr. Miles questioned if we have to participate at 50%. Mr. Bratcher responded that we don't have to participate at 50%. He told the group that if they would like to have a different level of participation we would like to know that going in so we would know if it is less than 50%. Mr. Bratcher asked the question if the board would like to have the borrower attend the meetings. The consensus of the board was they prefer the borrower not attend.

Mr. Lawson asked if we could request the KDA have more marketing influence. Commissioner Smith commented that one thing these people have going for them is local identity. There were further comments from the group.

Mr. Bratcher summarized - the recommendation to you for approval would be an amount not to exceed \$62,500; a participation using the bank's participation agreement, subject to our attorney's review of their loan documents; maximum servicing fee of no more than .50% but preferably .25%; we would settle with the bank on a weekly basis; insurance required; term would be a 5 year credit line. Mr. Hurd recommended renewal annually. Mr. Bratcher stated that the rate will be locked in at 4% for one year and 2% below the bank rate for the remaining term but we will evaluate whether we want to renew after the first year. Mr. Lawson referenced the origination fee and suggested that we find out if we are going to participate in that fee. There was group discussion. Mr. Lawson suggested that we get the quarterly business financials. Ms. Ross suggested annual field visits.

Commissioner Smith called for a motion to vote on this application. Bob Proffit made the motion to accept this application with the conditions stated. Ms. Ross seconded the motion. The vote carried and the motion passed.

Mr. Bratcher thanked Secretary Duke for his participation on the KAFC Board. He also told us about a call he had from John Tobe from Laura's Lean Beef. They are talking about doing a packaging facility in the state. He also told us about a conversation with the General Assembly, both Senator McGaha and Representative Thomas, about HB541. They both seem to be very supportive of reintroducing that legislation next session.

**Next Meeting Date:**

The next meeting is scheduled for 9:00 am on January 12, 2004

**Adjourn:**

The meeting adjourned at 11:22am

APPROVED: \_\_\_\_\_

PRESIDING OFFICER: \_\_\_\_\_

SECRETARY: \_\_\_\_\_